Overview

Highlights
❖ When middle-income countries experience situations of fragility, conflict, and violence, providing assistance can be a challenge for the World Bank Group. The government may have its own views on how and when to tackle the underlying issues, or may be reluctant to increase its borrowing to correct what may be seen as a localized or temporary problem.
❖ Through examining such cases, IEG concludes that the Bank Group's comparative advantage is supporting countries in tackling longer-term development challenges, including early engagement and a sustained presence in conflict-affected areas, as well as continuous dialogue with the parties to violent conflicts, where possible.
❖ The Bank has been adept at responding and at adjusting its strategies and analytical support to situations of violence and conflict, but its operational response has been constrained by its limited menu of instrument choices. Moreover, institutional and staff incentives to engage in conflict situations and to take risks seem to be lagging behind the spirit of its strategic approach, as expressed in various Bank documents, including the 2011 World Development Report on conflict, security, and development.
❖ The community-driven development model has often provided the Bank Group with a point of entry in conflict-affected areas. Though it has not addressed the causes and consequences of violence, the approach has been useful as a form of establishing a presence and contextual learning to support more ambitious efforts once peace is restored.
❖ The Bank Group can further enhance its impact in these situations by exploring opportunities beyond supporting livelihoods in conflict-affected communities, including support for private sector development, using its expertise in public financial management more effectively, and improving its monitoring and evaluation frameworks.

Background

The prevalence of incidents of violent conflict in *middle-income countries* (MICs) today has meant that the development community's perception of conflict and violence is no longer primarily associated with low-income countries. In 2014 the Independent Evaluation Group (IEG) undertook an evaluation of World Bank Group activities in low-income countries classified as fragile and conflict-affected (FCS). It was agreed at the time that it would be followed by an evaluation of Bank Group activities in countries not classified as FCS and experiencing localized or externally imposed situations of fragility, conflict, and violence (FCV).

This evaluation has three main objectives. First, it assesses and reports on the quality and results of selected Bank Group programs and operations. Second, it provides a deductive analysis of the factors that lead to success or failure of Bank Group engagements. Third, it aims to facilitate learning in this area, to help inform the design of future strategies and assistance programs.

The current Bank Group system of classifying countries as fragile and conflict-affected states relies on the Country Policy and Institutional

Assessment (CPIA) index, which does not seek to capture subnational, cross-border, or supranational forms of stress and violence. In the absence of a defined list and accepted criteria for classifying non-fragile MICs facing localized or externally imposed fragility, this evaluation chose a group of countries using four broad parameters: prolonged and widely publicized episodes of conflict and violence; presence of significant Bank Group programs; different levels of income and institutional capability; and representation from different global regions.

This evaluation classified the cases reviewed under *four categories of stress factors* that raise the risk of violence:

Subnational conflicts with a regional or ethnic identity marker. The experience, or perception, of injustice imposed by the state or by a dominant identity group is one of the most potent drivers of organized violence, especially when the ethnicity, geographical location, or religion of the affected group are easily defined. This essential driver applies to violence in the Philippines (Mindanao), Indonesia (Aceh), Uganda (the North), and Sri Lanka.

Violence related to organized crime and drug trafficking. In Colombia and Honduras the expanding drug trade fed an exponential growth in violence and criminal gangs. The lawlessness fed on unresolved social issues (land ownership, income inequality) and a popular mistrust of the state's willingness to address them.

Systemic failures of governance and erosion of state legitimacy. Conflicts in some areas of Pakistan and Nigeria were a form of subnational organized violence, but they differ from the cases described earlier in that they reflect lack of loyalty with and popular legitimacy of national and local government—rather than primarily reflecting state hostility toward local minorities.

Overwhelming pressure from external political shocks. Lebanon and Jordan have been hosting millions of Syrian refugees at the expense of their already stressed national systems and public finances. Both countries argue that while providing a global public good by hosting the refugees, they have reached the limit of their capacity in hosting a large refugee population, and absent more adequate international support, they may not be able to survive this shock indefinitely.

Bank Group Strategy and Instruments

The understanding of the nature and importance to development of organized violence has evolved over the years within the Bank, and has come to embody a greater focus on the political economy of subnational violence and on analytical and operational instruments to address it. Structural reorganization of the Bank Group in 2013 attempted to recognize the importance of organized violence as a key priority by establishing FCV as a cross-cutting solution area (CCSA).

The theme of what the Bank terms "conflict and violence"—and especially "localized conflict"—started appearing more prominently in Bank Group strategies in non-FCS MICs relatively recently, in the past 5-7 years. Earlier Bank Group strategies acknowledged the presence of the problem, but were either silent about any Bank Group response or explicitly noted that the Bank would be staying away.

The 2011 World Development Report (WDR) on *Conflict, Security, and Development* was an important milestone in this regard, as it formulated the currently accepted analytical framework. Subsequently, the theme of conflict and violence, including subnational conflicts, became more apparent in country strategies.

Main Findings

Bank Group strategic presence. *Sustained engagement* of the Bank Group in conflict areas ahead of peace settlements and during ongoing violence is critical, as experience, contacts, and credibility acquired in this process have important payoffs once there was peace. *Maintaining a presence* (even nominal) in former conflict zones is essential to help sustain peaceful development through a continuous process of identifying and tackling factors that can lead to violence.

Bank Group assistance, while useful, is not likely to fundamentally alter the fragility profile of many countries, especially MICs, due to the mismatch between the challenges faced and the level of resources the Bank is able to bring to bear.

The Bank Group *comparative advantage* continues to be helping these countries to tackle longer-term developmental challenges through earlier engagement and sustained presence in the conflict-affected areas, and continuous dialogue with the parties to violent conflicts, where possible. The Bank Group can add value by analyzing the nature of conflict, and then catalyzing appropriate responses.

In many instances, the problems have much deeper *regional* roots and the Bank Group needs to develop a broader and more holistic view of the problems and their spill-over effects.

Success in FCV situations requires good knowledge of local conditions and deep understanding of the political economy. Hence, continuity in staffing policy is very important. It was, however, not common in cases observed. Moreover, the *institutional and staff incentives* for engagement in conflict situations and risk-taking seem to be lagging behind the spirit of its strategic approach to FCV, as reflected in various Bank documents, including the 2011 WDR. The Bank Group is often reluctant to compromise lending volumes by an excessive focus on core drivers of violence: regional conflicts and governance.

Bank Group operational response. In the countries reviewed, the Bank Group was generally fast to respond and adjust its strategies and analytical support to emergency situations, but its *operational response* was often constrained by the limited choice of instruments at its disposal and depended to a large extent on donor financing and presence of large multi-donor trust funds.

Bank Group *definitions, measurement metrics*, and policy application are not entirely consistent along the full spectrum of countries experiencing FCV. In this regard, the role of the new structural unit, the *FCV CCSA* could be particularly important, especially in redefining and fine-tuning fragility diagnostic and measurement instruments. It will be useful for the CCSA to have more authority on policy matters, while also finding a way to maintain closer connection to operational work led by the Global Practices (GPs).

Bank Group engagement in promoting *private sector development* as means of mitigating causes and dealing with consequences of violence was rather limited. *International Finance Corporation* (IFC) almost exclusively focused on post-conflict reconstruction, reflecting in part the high risk perceptions, but also the limited choice of instruments, and lack of institutional incentives and corporate targets for non-FCS countries. In those cases where the Bank Group was able to find a niche and identify private sector clients, its contribution was relevant and effective. There were some promising initiatives involving Bank-IFC cooperation, but those appear to be the exception rather than a norm.

The *Multilateral Investment Guarantee Agency* (MIGA) political risk insurance products are a useful tool that can help facilitate foreign direct investment when a country faces FCV situations, including at subnational level, and their use can be further expanded.

Projects with a *community-driven development* (CDD) design were a useful point of entry for the Bank Group in conflict-affected areas, used also as a form of information-gathering and contextual learning. They were not, however, a forum for addressing the causes and consequences of violence. Success of CDD projects in conflict zones was highly context-specific.

FCV-specific diagnostic work (fragility assessments, conflict filters) was useful and relevant when it was invoked, but was not the norm within the reviewed group of countries. The utility of fragility assessments in non-FCS could be limited by the fact that their preparation, disclosure, and even discussion with the client are optional.

PFM diagnostics in the conflict-affected regions, and particularly policy advice on budgeting and governance arrangements in the security sector and fiscal decentralization, deserve more attention, especially since the Bank does have proven technical expertise and positive experience with such analysis.

Weak *monitoring and evaluation* (M&E) frameworks undermined the assessment of results in many of the cases observed, and diminished the learning potential from the projects even when they were designed as pilots. FCV factors were generally reflected in project design and during implementation, but rarely captured in results.

Partnerships. *Bank Group-United Nations partnership* was particularly important in the FCV context, as the United Nations agencies have political and security-related skills and contacts that the Bank needs to leverage, and the United Nations system is the prime actor on the humanitarian front. Such partnerships were not systematic and their frequency and effectiveness varied across the countries and themes. The existing system did not encourage building partnerships because of perceived high transaction costs, lack of strong staff incentives, incompatibility of the fiduciary and legal frameworks, and competition for influence and limited donor resources. A more nuanced strategic and technical dialogue is needed to delineate respective roles and comparative advantages.

Multi-donor trust funds are vital strategic tools in conflict regions, but their effectiveness can be enhanced by stronger links to the rest of the Bank portfolio. Global thematic trust funds (State and Peace-Building Fund, Global Program of Forced Displacement, others) were helpful in supporting synergies in the FCV context. However, their impact (particularly in MICs) was diminished by their fragmentation.

Recommendations

Based on the findings of this evaluation, the following recommendations are made:

A. <u>On Bank Group strategic approach</u>:

- Review the institutional setup and interaction of various Bank Group units dealing with FCV matters, to ensure that the FCV CCSA drives substantive thinking on strategy and policy in this area across the World Bank Group. This would also entail closer operational engagement of CCSA staff with and across the Bank Group members (including IFC and MIGA), and regional and thematic departments.

- Develop a new multidimensional publicly disclosed system of markers and flags for monitoring and measuring fragility, including in non-FCS countries. Linked to this, integrate fragility assessments as part of the SCD/CPF process to be applied systematically in countries where conflict and violence or externally imposed fragility constitute a significant impediment to attaining the strategic objectives of the World Bank Group.

- Scale up regional presence and outlook, including through regional projects and joint analytic and advisory work across relevant countries, and ensure Bank Group sustained presence in FCV-affected areas, monitoring the fragility profile of the countries/regions.

B. On Bank Group operational response:

- Develop new financial mechanisms or fast-response facilities to be used when outbreaks of violence or external threats jeopardize resilience in MICs. Improve strategic alignment and use of global FCV thematic trust funds, while boosting their agility. Options to consider include using these funds for co-financing small pilot programs in FCV-affected areas with potential of scaling-up.

- Within the new SCD/CPF model, develop a broader strategic approach to interventions in FCV-affected areas, expanding sector interventions beyond the CDD model, and improving coordination and information sharing within the Bank Group, with particular attention to private sector development activities (through a more customized approach to risk assessment, project mix, policies and procedures), public financial management (including fiscal decentralization and broader use of diagnostic tools), education, and gender (including integration of conflict-specific gender issues in project design and implementation). Strengthen M&E frameworks by including FCV-related outcome indicators.

On partnerships:

- Develop institutional incentives for collaboration and strategic thematic guidance on partnering – particularly with the United Nations but also with other partners. Introduce systematic communication and staff exchange programs to increase the level of collaboration.